SBA

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Business Plan for the Small Retailer

Management and Planning Series

Building America's Future

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A good business plan gives the small retail firm a pathway to profit. This publication is designed to help an owner-manager develop a sound business plan.

To profit in business, you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy my goods? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my store? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

As the owner-manager, you must answer these questions as you draw up your business plan. This publication is a combination of text and suggested analyses so you can organize the information you gather from research to develop your plan.

What Is a Business Plan?

The success of your business depends largely on the decisions you make. A business plan allocates resources and measures the results of your actions, helping you set realistic goals and make logical decisions.

What's in This for Me?

You may be thinking, "Why should I spend my time drawing up a business plan? What's in it for me?" If you've never worked out a plan, you are right in wanting to hear about the possible benefits before you do the work. Remember first that the lack of planning leaves you ill-prepared to anticipate future decisions and actions needed to run your business successfully.

A business plan offers many benefits. For example:

- A business plan gives you a path to follow.
- A plan with goals and action steps allows you to guide your business through turbulent, often unforeseen economic conditions.
- A plan gives your banker insight into the condition and direction of your business so your business can be more favorably considered for a loan.
- A plan can tell your sales personnel, suppliers and others about your operations and goals.
- A plan can help you develop as a manager. It can give you practice in thinking and figuring out problems about competitive conditions, promotional opportunities and situations that are good or bad for your business. Such practice over a period of time can help increase an owner-manager's ability to make judgments.
- A sound plan tells you what to do and how to do it to achieve the goals you have set for your business.

What Business Am I in?

In making your business plan, the first question to consider is, What business am I really in? At first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." Hold on and think. Some owner-managers have gone broke and others have wasted their savings because they did not define their businesses in detail. A clearly defined business will not only help your planning, it could mean greater profits.

Consider this example. Mr. Jet on the East Coast maintained a dock and sold and rented boats. He thought he was in the marina business. But when he got into financial trouble and asked for outside help, he learned that he was not simply in the marina business. He was in the restaurant business with a dockside cafe, serving meals to boating parties. He was in the real estate business, buying and selling lots. He was in the boat repair business, buying parts and hiring a mechanic as demand arose. Mr. Jet was trying to be too many things and couldn't decide which venture to put money into and how much return to expect. What slim resources he had were fragmented.

Before he could make a profit on his sales and a return on his investment, Mr. Jet had to decide what business he really was in and concentrate on it. After much study, he realized that he should stick to the marina format—buying, selling and servicing boats.

Decide what business you are in and write it down. Define your business. To help you decide, think of answers to questions like: What do you buy? What do you sell? Which of your lines of goods yields the greatest profit? What do people ask you for? What are you trying to do better, more of or differently from your competitors?

When you have decided what business you are in, you are ready to consider another important part of your business plan: marketing. Successful marketing starts with the owner-manager. You must know the merchandise you sell and the needs of your customers. The objective is to move the stock off the shelves and display racks at the right price and bring in sales dollars.

The following text and work spaces are designed to help you work out a marketing plan for your store.

Determining Sales Potential

In a retail business, your sales potential depends on location. Like a tree, a store has to draw nourishment from the area around it. To work through the problem of selecting a profitable location, answer the following questions. In what part of the city or town will you locate? In the downtown business section? In the area right next to the downtown business section? In a residential section? On the highway outside of town? In the suburbs? In a suburban shopping center?

On a worksheet, write where you plan to locate and give the reasons why you chose that particular location.

Now consider these questions that will help you narrow down a site in your location area.* What is the competition in the area you have picked? How many of the stores look prosperous? How many look as though they are barely getting by? How many similar stores went out of business in this area last year? What price line does the competition carry? Which store or stores in the area will be your biggest competitors?

Again, write down the reasons for your opinions. Also write out an analysis of the area's economic base and give the reasons for your opinion. Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Only part time? Did any industries go out of business or move from the area in the past several months? Are new industries scheduled to open in the next several months?

When you find a building that seems to be what you need, answer the following questions. Is the neighborhood becoming run down? Is the neighborhood new and growing? Are any super highways or throughways planned for the neighborhood? Is street traffic fairly heavy all day? Do pedestrians look like prospective customers? How close is the building to bus lines and other transportation? Are there adequate parking spaces convenient to your store? Are sidewalks in good repair (you may have to repair them)? Is the street lighting good? Is your store on the sunny side of the street? What is the occupancy history of this building? Does it have a reputation for failures? (Have stores opened and closed after a short time?) Why have other businesses failed in this location? What is the physical condition of the store? What services does the landlord provide? What are the terms of the lease? How much rent must you pay each month? Estimate the gross annual sales you expect in this location.

When you think you have solved the site location question, ask your banker to recommend people who know most about locations in your line of business. Contact these people and listen to their opinions, weigh what they say and then make your final decision.

Attracting Customers

When you have a location in mind, you should work through another aspect of marketing. How will you attract customers to your store? How will you pull business away from your competition? Many small retailers find competitive advantages within this aspect of marketing. The ideas they develop are as good as and often better than those the large companies develop. The following work blocks are designed to help you think about image, pricing, customer service policies and advertising.

Image

Every store has an image. For example, throw some merchandise onto shelves and onto display tables in a dirty, dimly lit store and you've got an image. Shoppers think of it as a dirty, junky store and avoid coming into it. The same merchandise displayed on brightly lit, well-organized shelves could project a "high-tech" image.

Your image should be focused enough to promote in your advertising and other promotional activities. For example, "home cooked food" might be the image of a small restaurant.

*The local chamber of commerce may have census data for your area. *Census Tracts on Population*, published by the U.S. Census Bureau, may be useful. Other sources on marketing statistics are trade associations and directories.

What is the image you want shoppers and customers to have of your store?

____

____

Pricing

Value received is the key to pricing. A store can have low prices by selling low-priced merchandise. Thus, what you do about the prices you charge depends on the lines of merchandise you buy and sell. Pricing also depends on what your competition charges for these lines of merchandise. Your answers to the following questions should help you to decide what to do about pricing.

In what price ranges are your lines of merchandise sold?

High ____
Medium ____
Low ____

What services will you offer to justify your prices if they are higher than your competitor's prices?

Will you sell for cash only? If you use credit card systems, what will they cost you? Will you have to add a surcharge to the original price in order to absorb the cost?

Customer Service Policies

The services you provide your customers may be free to them, but you pay for them. For example, if you provide free parking, you pay for your own parking lot or share the cost of a lot with other retailers.

List the services your competitors offer and estimate the cost of each service. How many of these services will you have to provide just to be competitive? Are there other services that would attract customers that competitors are not offering? If so, estimate the cost of such services. Now list all the services you plan to offer and the estimated costs. Total this expense and figure out how you can include those added costs in your prices without pricing your merchandise out of the market.

Who is your customer?

- Describe your typical customer.

  Age ______________________

  Male, female, both ______________________

  Number in family ______________________

  Annual family income ______________________

  Location ______________________

  Buying patterns ______________________

  Reason to buy from you ______________________

  Other ______________________

  ____

- Geographically describe your trading area (i.e., county, state, national).

  ____

  ____

- Economically describe your trading area (single family, average earnings, number of children).

  ____

  ____

Advertising

Consider advertising last, after you have determined your image, price range and customer services. Only then are you ready to tell prospective customers why they should shop in your store.

When advertising dollars are limited, it is vital that your advertising be on target. Before you can consider how much money you can afford for advertising, take time to determine your advertising goals. What are the strong points of your store? What makes your store different from your competitors? What facts about your store and its merchandise should you tell prospective customers?

When you have answered these questions, you are ready to think about the form and potential cost of your advertising. Ask the local media (newspapers, radio and television and direct mail printers) for information about the services and results they offer.

How you spend advertising money is your decision, but don't fall into the trap that snares many retailers who have little or no experience with advertising copy and media selection. Seek professional advice on what kind and how much advertising your store needs.

Use the following worksheet to determine what advertising you need.

When you have figured your advertising cost for the next 12 months, check it against what similar stores spend. Trade associations and other organizations often gather

Advertising Workblock

Form of advertising	Size of audience	Frequency of use		Cost of a single ad		Estimated cost
________	________	________	×	$ ________	=	$ ________
________	________	________	×	$ ________	=	$ ________
________	________	________	×	$ ________	=	$ ________
________	________	________	×	$ ________	=	$ ________
					Total	$ ________

data on advertising expenses as one operating ratio (expenses as a percentage of sales). If your estimated cost for advertising is substantially higher than the average for your line of merchandise, take a second look. No single expense item should be allowed to get way out of line if you want to make a profit. Your task in determining how much to spend for advertising comes down to the question, "How much can I afford to spend and still do the job that needs to be done?"

In-Store Sales Promotion

To complete your work on marketing, think about what you want to happen after prospective customers come into your store. Your goal is to move stock off your shelves and displays at a profit and to satisfy your customers. You want repeat customers and money in your cash register.

At this point, if you have decided to sell for cash only, take a second look at your decision. Don't overlook the fact that Americans like to buy on credit. Often a credit card, or other system of credit and collections, is needed to attract and hold customers. Customers will have more buying confidence and be more comfortable in your store if they know they can afford to buy. Credit makes this possible.

To encourage people to buy, self-service stores rely on layout, attractive displays, signs and clearly marked prices on items offered for sale. Other stores combine these techniques with personal selling. List the display counters, racks, special equipment (something peculiar to your business like a frozen food display bin or a machine to measure and cut cloth) and other fixtures. Figure the cost of all fixtures and equipment by listing them on a worksheet as follows:

Type of equipment: number × unit cost = cost

Draw several layouts of your store and attach the layout that suits you to the cost worksheet. Determine how many signs you may need for a twelve-month operation and estimate that cost also.

If your store is a combination of self-service and personal selling, how many salespersons and cashiers will you need? Estimate your personnel costs as follows:

I will need ______ salespersons at $______ each per week (include payroll taxes, insurance and employee benefits) for a total of $______ per year.

Personal attention to customers is one competitive tool for a small store. When training employees, emphasize that everyone has to pitch in and get the job done. Customers are not interested in job descriptions—they are interested in being served promptly and courteously. Nothing is more frustrating to a customer than being ignored by an employee. Decide what training you will give your salespeople in how to greet customers, show merchandise, suggest other items and handle customer needs and complaints.

BUYING

When buying merchandise for resale, you need to answer these questions: Who sells the line to retailers? Is it sold by the manufacturer directly or through wholesalers and distributors? What delivery service can you get and what shipping charges must you pay? What are the terms of buying? Can you get credit? How quickly can the vendor deliver reorders?

You should establish a source of supply on acceptable terms for each line of merchandise and estimate a plan for purchasing as follows:

- *Delivery time*—How many days or weeks does it take the supplier to deliver the merchandise to your store?
- *Freight costs*—Who pays—you or the supplier? Freight or transportation costs are a big expense item.
- *Reorder policy*—What is the supplier's policy on reorders? Do you have to buy a gross, a dozen or will the supplier ship only two or three items? How long does it take for delivery to your store?

INVENTORY

Often shoppers leave without buying because the store did not have the items they wanted. Stock control, combined with suppliers whose policies on reorders are favorable to you, provides a way to reduce "walkouts."

The system you use to keep informed about your stock, or inventory, depends on your line of merchandise and the delivery dates provided by your suppliers. See page 7 for information on stock control.

An owner-manager who buys reasonably well can expect to turn over stock several times a year. For example, the stock in a small camera shop should turn over four to four-and-a-half times a year. What is the average stock turnover per year of your line of merchandise? How many times do you expect your stock to turn over? List the reasons for your estimate.

BEHIND-THE-SCENES WORK

In a retail store, behind-the-scenes work consists of receiving merchandise, preparing it for display, maintaining display counters and shelves and keeping the store clean and attractive to customers. The following list will help you decide what to do and the cost of those actions.

First, list the equipment (for example, a marking machine for pricing, shelves, a cash register) you will need for your behind-the-scenes work. Next list the supplies you will need for a year, e.g., brooms, price tags and business forms.

Use this format to figure these costs:

Name of equipment/supplies: quantity × unit cost = cost

Who will do the back room work and the cleaning that are needed to make a smooth operation in the store? If you do it yourself, how many hours a week will it take? Will you do these chores after closing? If you use employees, what will they cost? On a worksheet describe how you plan to handle these tasks. For example:

Back room work will be done by one employee during the slack sales times of the day. I estimate the employee will spend _____ hours per week on these tasks at a cost of $_____ (number of hours times hourly wage) per week and $_____ per year.

I will need _____ square feet of space for the back room operation. This space will cost $_____ per square foot or a total of $_____ per month.

List and analyze all expense items, such as utilities, office help, insurance, telephone, postage, accountant, payroll taxes, employee benefits and licenses or other local taxes, the same way. If you plan to hire others to help you manage, analyze these salaries also.

This section is designed to help you think about what your business plan means in terms of dollars.

The first question concerns the source of dollars. After your initial capital investment in a small retail store, the main source of money is sales. What sales volume in dollars do you expect in the first 12 months? Write your estimate here and justify it: $____________

Start-up Costs

List the following estimated start-up costs, transferring your figures from previous worksheets:

Fixtures and equipment	$
Starting inventory	$
Decorating and remodeling	$
Installation of equipment	$
Deposits for utilities	$
Legal and professional fees	$
License and permits	$
Advertising for the opening	$
Accounts receivable	$
Operating cash	$
Total	$

Whether you have the funds (perhaps in savings) or borrow the money, your new business will have to pay back start-up costs. Keep this fact in mind as you estimate expenses and other financial aspects of your plan.

Expenses

In connection with annual sales volume, you need to think about expenses. For example, what will it cost you to do $100,000 worth of business? How much profit will you make? A business must make a profit or close.

The following exercise will help you estimate your expenses. To do this exercise you need to know the total cost of goods sold for your line of merchandise for the period (month or year) you are analyzing. Cost of goods sold is expressed as a percentage of sales and is called an operating ratio. Check with your trade association to get the operating ratios for your business.

Using your operating ratio for cost of goods sold and estimated sales revenue, you can break down your expenses by substituting your ratios and dollar amounts in the income statement. Notice that the gross profit margin must be large enough to provide for your expenses and profit. Use the format below to calculate your operating ratios for all items on the Income Projection Statement. (See Appendix A.)

	Examples Operating Ratios		Yours	
	%	**$**	**%**	**$**
Sales	100	$100,000	100	$
Cost of goods sold	–66	–66,000		–$
Gross profit margin	34	$34,000		$

Continue to fill out the Income Projection Statement each month. Use the worksheet provided in Appendix A.

Cash Flow Projection

A budget helps you to see your expected revenues and expenses each month. Then from month to month the question is, Will sales bring in enough money to pay the store's bills? The owner-manager must prepare for the financial peaks and valleys of the business cycle.

A *cash flow projection* is a management tool that can eliminate much of the anxiety that can plague you in lean months. Use the Monthly Cash Flow Projection form (Appendix B) to figure your budget.

Is Additional Money Needed?

Suppose at this point your business needs more money than can be generated by present sales. What do you do?

If your business has great potential or is in good financial condition, as shown by its balance sheet, you can borrow money (most likely from a bank) to keep the business operating during start-up and slow sales periods. The loan can be repaid during the months when sales are greater than expenses. Adequate working capital is needed for success and survival, but cash on hand (or lack of it) is not necessarily an indication that the business is in bad financial shape. A lender will look at your balance sheet to see the business's net worth, of which cash flow is only a part. The Balance Sheet (Appendix C) shows a business's net worth (financial position) at a given time, say as of the close of business at the end of the month or at the end of the year.

Even if you do not need to borrow money, you may want to show your plan and balance sheet to your banker. It is never too early to build good relations and credibility (trust) with your banker. Let your banker know you are a manager with specific goals rather than someone who merely hopes to succeed.

CONTROL AND FEEDBACK

To make your plan work you need feedback. For example, a year-end profit and loss (income) statement shows whether your business made a profit or took a loss for the past 12 months.

Don't wait 12 months for the score. To keep your plan on target you need readings at frequent intervals. An income statement compiled at the end of each month or at the end of each quarter is one common type of feedback.

You must also set up management controls that help you ensure that the right things are done each day and week. You as the owner-manager cannot do all the work. You must delegate work, responsibility and authority. All record-keeping systems should be set up before the store opens. After you're in business it is too late.

The control system you set up should give you information about stock, sales, receipts and disbursements. The simpler the accounting control system, the better. Its purpose is to give you current useful information and help you expose trouble spots. Outside advisers, such as accountants, can help.

Stock Control

The purpose of controlling stock is to provide maximum service to your customers. Your aim should be to achieve a high turnover rate on your inventory. The fewer dollars you tie up in stock, the better. In a small store, stock control helps the owner-manager offer a balanced assortment and determine stock to be ordered on the basis of what is on hand, what is on order and what has been sold.

When setting inventory controls, keep in mind that in addition to the cost of the stock, there are also the costs of purchasing, receiving and storing stock and the cost of keeping stock control records.

Your stock control system should enable you to determine what needs to be ordered on the basis of what is on hand, what is on order and what has been sold. Some trade associations and suppliers provide systems to members and customers. Otherwise your accountant can set up a system that is best for your business. Inventory control is based on either a perpetual or a periodic method of accounting involving cost considerations as well as stock control.

When you have chosen the system you will use to control stock, estimate its cost. You may not need an extensive (and expensive) control system if you do not need the detailed information such a system collects. The system must justify its cost or you will waste money and time on a useless effort.

Many stores (e.g., bookstores, shoe stores and clothing stores) use computerized software systems to control inventory. A computerized inventory system is especially helpful if you must maintain a large variety of products, as in a bookstore, a liquor store or a shoe store. A computerized system allows you to avoid overstocking items that do not sell in large quantities by providing detailed reports on sales and stock turnover. Speak to your accountant about the feasibility and cost of using a computerized inventory system or visit your local computer store to see what inventory systems are available. The best system usually will be one designed for your line of business.

Sales

In a small store, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, answer questions such as, How many sales were made? What was the dollar amount? What were the best-selling products? At what price? What credit terms were given to customers?

Receipts

Break out your receipts into receivables (money still owed, such as charge sales) and cash. You will then know how much credit you have given, how much more you can give and how much cash you have with which to operate.

Disbursements

Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. Pay bills on time to take advantage of supplier discounts. Your review systems should also give you the opportunity to make judgments on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also tell you that tax monies, such as payroll income tax deductions, are being set aside and deposited at the proper time.

Break-even Analysis

Break-even analysis is a management control device that approximates how much you must sell in order to cover your costs with no profit and no loss. Profit comes after you pass the break-even point.

Profit depends on sales volume, selling price and costs. Break-even analysis helps you estimate what a change in one or more of these factors will do to your profit. To figure a break-even point, fixed costs (like rent) must be separated from variable costs (like the cost of goods sold). The break-even formula is as follows:

$$\text{Break-even point (in sales dollars)} = \frac{\text{total fixed costs}}{1 - \dfrac{\text{total variable costs}}{\text{corresponding sales volume}}}$$

For example, Bill Mason plans to open a shoe store and estimates his fixed expenses at about $9,000 the first year. He estimates variable expenses of about $700 for every $1,000 of sales. How much must the store gross to break even?

$$\text{Break-even point} = \frac{\$9{,}000}{1 - \dfrac{700}{1000}} = \frac{\$9{,}000}{1 - .7} = \frac{\$9{,}000}{.3} = \$30{,}000$$

IS YOUR PLAN WORKABLE?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure your plan is workable.

Reexamine your plan before you back it with money. If the plan is not workable, it is better to learn it now than to realize six months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures from your breakdown of yearly expenses (operating ratios on the income statement). If any of your cost items are too high or too low, change them. You can write your changes above or below your original entries on the expenses worksheet. When you finish making your adjustments, you will have a revised projected statement of sales and expenses.

With your revised figures, work out a revised break-even analysis. Whether the new break-even point looks good or bad, take one more precaution. Show your plan to someone who has not been involved in working out the details with you. Get an impartial, knowledgeable second opinion. Your banker, contact person at Small Business Administration or other adviser may see weaknesses that you did not see. This expert also may see strong points your plan should emphasize.

IMPLEMENTING YOUR PLAN

When your plan is as thorough and accurate as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a wishful dream.

Look back over your plan for things that must be done to put it into action. What needs to be done will depend on your situation and goals. For example, if your business plan calls for an increase in sales, you may have to provide more funds for this expansion. Have you more money to put into this business? Can you borrow from friends or relatives? From your bank? From your suppliers (through credit terms)? If you are starting a new business, one action might be to get a loan for fixtures, stock, employee salaries and other expenses. Another action will be to find and hire capable employees.

Now list things that must be done to put your plan into action and give each item a completion date.

Action	**Completion date**
______________________________	______________
______________________________	______________
______________________________	______________
______________________________	______________
______________________________	______________

KEEP YOUR PLAN CURRENT

Once you put your plan into action, look out for changes. They can cripple the best business, no matter how well planned. Stay on top of changing conditions and adjust your business plan accordingly. Sometimes the change is within your company—for example, several of your salespersons may quit. Sometimes the change is with customers whose desires and tastes change or refuse to change. Sometimes the change is technological, as when new products are created and marketed.

In order to adjust your plan to account for such changes you, the owner-manager, must—

- Be alert to the changes in your line of business, market and customers.
- Check your plan against these changes periodically.
- Determine what revisions, if any, are needed in the business plan and implement them.

Be sure to read trade and business papers and magazines. You must be constantly updating and improving. A good business plan must evolve from experience and the best current information. Certainly you will have more accurate dollar amounts to work with after you have been in business for a time. A good business plan is good business.

APPENDIX A: INCOME PROJECTION STATEMENT

	Industry %	J	F	M	A	M	J	J	A	S	O	N	D	Annual total	Annual %
Total net sales (revenues)															
Cost of sales															
Gross profit															
Gross profit margin															
Controllable expenses															
Salaries/wages															
Payroll expenses															
Legal/accounting															
Advertising															
Automobile															
Office supplies															
Dues/subscriptions															
Utilities															
Miscellaneous															
Total controllable expenses															
Fixed expenses															
Rent															
Depreciation															
Utilities															
Insurance															
Licenses/permits															
Loan payments															
Miscellaneous															
Total fixed expenses															
Total expenses															
Net profit (loss) before taxes															
Taxes															
Net profit (loss) after taxes															

INSTRUCTIONS FOR INCOME PROJECTION STATEMENT

The income projection (profit and loss) statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner-manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

As monthly projections are developed and entered into the income projection statement, they can serve as definite goals for controlling the business operation. As actual operating results become known each month, they should be recorded for comparison with the monthly projections. A completed income statement allows the owner-manager to compare actual figures with monthly projections and to take steps to correct any problems.

Industry Percentage

In the industry percentage column, enter the percentages of total sales (revenues) that are standard for your industry, which are derived by dividing

$$\frac{\text{cost/expense items}}{\text{total net sales}} \times 100\%$$

These percentages can be obtained from various sources, such as trade associations, accountants or banks. The reference librarian in your nearest public library can refer you to documents that contain the percentage figures, for example, Robert Morris Associates' *Annual Statement Studies* (One Liberty Place, Philadelphia, PA 19103).

Industry figures serve as a useful benchmark against which to compare cost and expense estimates that you develop for your firm. Compare the figures in the industry percentage column to those in the annual percentage column.

Total Net Sales (Revenues)

Determine the total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projection to review your pricing practices.

- What returns, allowances and markdowns can be expected?
- Exclude any revenue that is not strictly related to the business.

Cost of Sales

The key to calculating your cost of sales is that you do not overlook any costs that you have incurred. Calculate cost of sales for all products and services used to determine total net sales. Where inventory is involved, do not overlook transportation costs. Also include any direct labor.

Gross Profit

Subtract the total cost of sales from the total net sales to obtain gross profit.

Gross Profit Margin

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing

$$\frac{\text{gross profits}}{\text{total net sales}}$$

Controllable Expenses

- *Salary expenses*—Base pay plus overtime.
- *Payroll expenses*—Include paid vacations, sick leave, health insurance, unemployment insurance and social security taxes.
- *Outside services*—Include costs of subcontracts, overflow work and special or one-time services.
- *Supplies*—Services and items purchased for use in the business.
- *Repairs and maintenance*—Regular maintenance and repair, including periodic large expenditures such as painting.
- *Advertising*—Include desired sales volume and classified directory advertising expenses.
- *Car, delivery and travel*—Include charges if personal car is used in business, including parking, tolls, buying trips, etc.
- *Accounting and legal*—Outside professional services.

Fixed Expenses

- *Rent*—List only real estate used in the business.
- *Depreciation*—Amortization of capital assets.

- *Utilities*—Water, heat, light, etc.
- *Insurance*—Fire or liability on property or products. Include workers' compensation.
- *Loan repayments*—Interest on outstanding loans.
- *Miscellaneous*—Unspecified; small expenditures without separate accounts.

Net Profit (loss) (before taxes)	• Subtract total expenses from gross profit.
Taxes	• Include inventory and sales taxes, excise tax, real estate tax, etc.
Net Profit (loss) (after taxes)	• Subtract taxes from net profit (before taxes).
Annual Total	• For each of the sales and expense items in your income projection statement, add all the monthly figures across the table and put the result in the annual total column.
Annual Percentage	• Calculate the annual percentage by dividing $\frac{\text{annual total}}{\text{total net sales}} \times 100\%$ • Compare this figure to the industry percentage in the first column.

APPENDIX B: MONTHLY CASH FLOW PROJECTION

Name of business	Address	Owner	Type of business	Prepared by	Date

	Pre-start-up position		1		2		3		4		5		6		Total Columns 1–6		
Year Month	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual	
1. Cash on hand (beginning of month)																	1.
2. Cash receipts																	2.
(a) Cash sales																	(a)
(b) Collections from credit accounts																	(b)
(c) Loan or other cash injection (specify)																	(c)
3. Total cash receipts (2a + 2b + 2c = 3)																	3.
4. Total cash available (before cash out) (1 + 3)																	4.
5. Cash paid out																	5.
(a) Purchases (merchandise)																	(a)
(b) Gross wages (excludes withdrawals)																	(b)
(c) Payroll expenses (taxes, etc.)																	(c)
(d) Outside services																	(d)
(e) Supplies (office and operating)																	(e)
(f) Repairs and maintenance																	(f)
(g) Advertising																	(g)
(h) Car, delivery and travel																	(h)
(i) Accounting and legal																	(i)
(j) Rent																	(j)
(k) Telephone																	(k)
(l) Utilities																	(l)
(m) Insurance																	(m)
(n) Taxes (real estate, etc.)																	(n)
(o) Interest																	(o)
(p) Other expenses (specify each)																	(p)
(q) Miscellaneous (unspecified)																	(q)
(r) Subtotal																	(r)
(s) Loan principal payment																	(s)
(t) Capital purchases (specify)																	(t)
(u) Other start-up costs																	(u)
(v) Reserve and/or escrow (specify)																	(v)
(w) Owner's withdrawal																	(w)
6. Total cash paid out (5a through 5w)																	6.
7. Cash position (end of month) (4 minus 6)																	7.
Essential operating data (non-cash flow information) A. Sales volume (dollars)																	A.
B. Accounts receivable (end of month)																	B.
C. Bad debt (end of month)																	C.
D. Inventory on hand (end of month)																	D.
E. Accounts payable (end of month)																	E.

INSTRUCTIONS FOR MONTHLY CASH FLOW PROJECTION

1. Cash on hand (beginning of month)	Cash on hand same as (7), Cash position, previous month
2. Cash receipts (a) Cash sales	All cash sales. Omit credit sales unless cash is actually received.
(b) Collections from credit accounts	Amount to be expected from all credit accounts.
(c) Loan or other cash injection	Indicate here all cash injections not shown in 2(a) or 2(b) above.
3. Total cash receipts (2a + 2b + 2c = 3)	
4. Total cash available (before cash out) (1 + 3)	
5. Cash paid out (a) Purchases (merchandise)	Merchandise for resale or for use in product (paid for in current month)
(b) Gross wages (excludes withdrawals)	Base pay plus overtime (if any)
(c) Payroll expenses (taxes, etc.)	Include paid vacations, paid sick leave, health insurance, unemployment insurance, etc. (this might be 10 to 45% of 5(b))
(d) Outside services	This could include outside labor and/or material for specialized or overflow work, including subcontracting
(e) Supplies (office and operating)	Items purchased for use in the business (not for resale)
(f) Repairs and maintenance	Include periodic large expenditures such as painting or decorating
(g) Advertising	This amount should be adequate to maintain sales volume
(h) Car, delivery and travel	If personal car is used, charge in this column, include parking
(i) Accounting and legal	Outside services, including, for example, bookkeeping
(j) Rent	Real estate only (See 5(p) for other rentals)
(k) Telephone	
(l) Utilities	Water, heat, light and/or power
(m) Insurance	Coverages on business property and products (fire, liability); also worker's compensation, fidelity, etc. Exclude executive life (include in 5(w))
(n) Taxes (real estate, etc.)	Plus inventory tax, sales tax, excise tax, if applicable
(o) Interest	Remember to add interest on loan as it is injected (See 2(c) above)
(p) Other expenses (specify each)	Unexpected expenditures may be included here as a safety factor
____________	Equipment expensed during the month should be included here (non-capital equipment)
____________	When equipment is rented or leased, record payments here
(q) Miscellaneous (unspecified)	Small expenditures for which separate accounts would not be practical
(r) Subtotal	This subtotal indicates cash out for operating costs
(s) Loan principal payment	Include payment on all loans, including vehicle and equipment purchases on time payment
(t) Capital purchases (specify)	Nonexpensed (depreciable) expenditures such as equipment, building, vehicle purchases and leasehold improvements
(u) Other start-up costs	Expenses incurred prior to first month projection and paid for after start-up
(v) Reserve and/or escrow (specify)	Example: insurance, tax or equipment escrow to reduce impact of large periodic payments
(w) Owner's withdrawal	Should include payment for such things as owner's income tax, social security, health insurance, executive life insurance premiums, etc.
6. Total cash paid out (5a through 5w)	
7. Cash position (end of month) (4 minus 6)	Enter this amount in (1) Cash on hand following month.
Essential operating data (non-cash flow information)	This is basic information necessary for proper planning and for proper cash flow projection. In conjunction with this data, the cash flow can be evolved and shown in the above form.
A. Sales volume (dollars)	This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (actual sales, not orders received).
B. Accounts receivable (end of month)	Previous unpaid credit sales plus current month's credit sales, less amounts received current month (deduct "C" below)
C. Bad debt (end of month)	Bad debts should be subtracted from (B) in the month anticipated
D. Inventory on hand (end of month)	Last month's inventory plus merchandise received and/or manufactured current month minus amount sold current month
E. Accounts payable (end of month)	Previous month's payable plus current month's payable minus amount paid during month
F. Depreciation	Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service

COMPANY NAME

As of ______________ ____, 19_____

Assets		Liabilities	
Current assets		Current liabilities	
Cash	$______	Accounts payable	$______
Petty cash	$______	Notes payable	$______
Accounts receivable	$______	Interest payable	$______
Inventory	$______	Taxes payable	
Short-term investments	$______	Federal income tax	$______
Prepaid expenses	$______	State income tax	$______
		Self-employment tax	$______
		Sales tax (SBE)	$______
		Property tax	$______
Long-term investments	$______	Payroll accrual	$______
Fixed assets		Long-term liabilities	
Land	$______	Notes payable	$______
Buildings	$______		
Improvements	$______	Total liabilities	$______
Equipment	$______	Net worth (owner equity)	
Furniture	$______	Proprietorship	$______
		or	
Automobiles/vehicles	$______	Partnership	
		(name's) equity	$______
		(name's) equity	$______
Other assets		or	
		Corporation	
1.	$______	Capital stock	$______
2.	$______	Surplus paid in	$______
		Retained earnings	$______
3.	$______		
4.	$______	Total net worth	$______
Total assets	$______	**Total liabilities and total net worth**	$______

(Total assets will always equal total liabilities and total net worth.)

Figures used to compile the balance sheet are taken from the previous and current balance sheet as well as the current income statement. The income statement is usually attached to the balance sheet. The following text covers the essential elements of the balance sheet.

At the top of the page fill in the legal name of the business, the type of statement and the day, month and year.

Assets

List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

Current Assets

- *Cash*—List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operations). Include money on hand and demand deposits in the bank, e.g., checking accounts and regular savings accounts.
- *Petty cash*—If your business has a fund for small miscellaneous expenditures, include the total here.
- *Accounts receivable*—The amounts due from customers in payment for merchandise or services.
- *Inventory*—Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.
- *Short-term investments*—Also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings expected to be converted into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their cost or market value, whichever is less.
- *Prepaid expenses*—Goods, benefits or services a business buys or rents in advance. Examples are office supplies, insurance protection and floor space.

Long-term Investments

Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

Fixed Assets

Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets, except for land, are listed at cost less depreciation. Fixed assets may be leased. Depending on the leasing arrangement, both the value and the liability of the leased property may need to be listed on the balance sheet.

- *Land*—List original purchase price without allowances for market value.
- *Buildings*
- *Improvements*
- *Equipment*
- *Furniture*
- *Automobiles/vehicles*

Liabilities

Current Liabilities

List all debts, monetary obligations and claims payable within 12 months or within one cycle of operations. Typically they include the following:

- *Accounts payable*—Amounts owed to suppliers for goods and services purchased in connection with business operations.
- *Notes payable*—The balance of principal due to pay off short-term debt for borrowed funds. Also include the current amount due of total balance on notes whose terms exceed 12 months.
- *Interest payable*—Any accrued fees due for use of both short- and long-term borrowed capital and credit extended to the business.

- *Taxes payable*—Amounts estimated by an accountant to have been incurred during the accounting period.
- *Payroll accrual*—Salaries and wages currently owed.

Long-term Liabilities

Notes payable—List notes, contract payments or mortgage payments due over a period exceeding 12 months or one cycle of operations. They are listed by outstanding balance less the current portion due.

Net Worth

Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

Total Liabilities and Net Worth

The sum of these two amounts must always match that for total assets.

APPENDIX D: HOW TO WRITE A BUSINESS PLAN©

The following pages provide a suggested outline of the material that should be included in your business plan. Your final plan may vary according to your needs or because of the individual requirements of your lender.

What Are the Benefits?

Every business can benefit from the preparation of a carefully written plan. There are two main purposes for writing that plan:

1. To serve as a guide during the lifetime of the business. It is the blueprint of your business and will provide you with the tools for analysis and change.
2. A business plan is a requirement if you are planning to seek a loan. It will provide potential lenders with detailed information on all aspects of your company's past and current operations and provide future projections.

Business Plan Outline

I. Cover sheet
Serves as the title page of your business plan. It should contain the following:

- Name of the company
- Company address
- Company phone number (include area code)
- Logo (if you have one)
- Names, titles, addresses, phone numbers (include area code) of owners
- Month and year your plan was issued
- Name of preparer

II. Statement of purpose
(Same as executive summary.) This is the thesis statement and includes business plan objectives. Use the key words (who, what, where, when, why, how, and how much) to briefly tell about the following:

- What your company is (also who, what, where and when).
- What your objectives are.
- If you need a loan, why you need it.
- How much you need.
- Why you will be successful.
- How and when you plan to repay your loan.

III. Table of contents
A page listing the major topics and references.

IV. The business
Covers the details of your business. Include information about your industry in general, and your business in particular. Address the following:

- *Legal structure*—Tell what legal structure you have chosen and state reasons for your choice.
- *Description of the business*—Detail your business. Tell about your history, present status and future projections. Outline your product or service in terms of marketability. Project a sense of what you expect to accomplish in the next few years.
- *Products or services*—Give a detailed description of your products from raw materials to finished items. Tell about your manufacturing process. If you provide a service, tell what it is, how it is provided and why it is unique. List future products or services you plan to provide.
- *Location*—Describe site and why it was chosen. (If location is important to your marketing plan, focus on this in the marketing section below.)
- *Management*—Describe who is behind the business. For each owner, tell about responsibilities and abilities. Support with resumes.
- *Personnel*—Who will be doing the work, why are they qualified, what is their wage, what are their responsibilities?
- *Methods of record keeping*—What accounting system will you use? Who will do your record keeping? Do you have a plan to help you use your records in analyzing your business?
- *Insurance*—What kinds of insurance will you need? What will these cost and who will you use for a carrier?
- *Security*—Address security in terms of inventory control and theft of information.

V. Marketing
Covers the details of your marketing plan. Include information about the total market with emphasis on your target market. Identify

your customers and tell about the means to make your product or service available to them.

- *Target market*—Identify characteristics of your customers. Tell how you arrived at your results. Back up information with demographics, questionnaires and surveys. Project size of your market.
- *Competition*—Evaluate indirect and direct competition. Show how you can compete. Evaluate competition in terms of location, market and business history.
- *Methods of distribution*—Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports, rate sheets, etc.
- *Advertising*—How will your advertising be tailored to your target market? Include rate sheets, promotional material and time lines for your advertising campaign.
- *Pricing*—Pricing will be determined as a result of market research and costing your product or service. Tell how you arrived at your pricing structure and back it up with materials from your research.
- *Product design*—Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.
- *Timing of market entry*—Tell when you plan to enter the market and how you arrived at your decision.
- *Location*—If your choice of location is related to target market, cover it in this section of your business plan. (See location in the business section of this outline.)
- *Industry trends*—Give current trends, project how the market may change and what you plan to do to keep up.

VI. Financial documents

These are the records used to show past, current and projected finances. The following are the major documents you will want to include in your business plan. The work is easier if these are done in the order presented.

- *Summary of financial needs*—This is an outline indicating why you are applying for a loan and how much you need.
- *Sources and uses of funds statement*—It will be necessary for you to tell how you intend to disperse the loan funds. Back up your statement with supporting data.
- *Cash flow statement (budget)*—This document projects what your business plan means in terms of dollars. It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.
- *Three-year income projection*—A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.
- *Break-even analysis*—The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total dollars or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.

NOTE: *The following are actual performance statements reflecting the activity of your business in the past. If you are a new business owner, your financial section will end here and you will add a personal financial history. If you are an established business, you will include the actual performance statements that follow.*

- *Balance sheet*—Shows the condition of the business as of a fixed date. It is a picture of your firm's financial condition at a particular moment and will show you whether your financial position is strong or weak. It is usually done at the close of an accounting period, and contains assets, liabilities and net worth.
- *Income (profit and loss) statement*—Shows your business financial activity over a period of time (monthly, annually). It is a moving picture showing what has happened in your business and is an excellent tool for assessing your business. Your ledger is closed and balanced and the revenue and expense totals transferred to this statement.

- *Business financial history*—This is a summary of financial information about your company from its start to the present. The business financial history and loan application are usually the same. If you have completed the rest of the financial section, you should be able to transfer all the needed information to this document.

VII. Supporting documents

These are the records that back up the statements and decisions made in the three main parts of your business plan. Those most commonly included are as follows:

- *Personal resumes*—Should be limited to one page and include work history, educational background, professional affiliations and honors and special skills.
- *Personal financial statement*—A statement of personal assets and liabilities. For a new business owner, this will be part of your financial section.
- *Credit reports*—Business and personal from suppliers or wholesalers, credit bureaus and banks.
- *Copies of leases*—All agreements currently in force between your company and a leasing agency.
- *Letters of reference*—Letters recommending you as being a reputable and reliable businessperson worthy of being considered a good risk. (Include both business and personal references.)
- *Contracts*—Include all business contracts, both completed and currently in force.
- *Legal documents*—All legal papers pertaining to your legal structure, proprietary rights, insurance, titles, etc.
- *Miscellaneous documents*—All other documents that have been referred to, but are not included in the main body of the plan (e.g., location plans, demographics, advertising plan, etc.).

Putting Your Plan Together

When you are finished: Your business plan should look professional, but the lender needs to know that it was done by you. A business plan will be the best indicator he or she has to judge your potential for success. It should be no more than 30 to 40 pages long. Include only the supporting documents that will be of immediate interest to your potential lender. Keep the others in your own copy where they will be available on short notice. Have copies of your plan bound at your local print shop, or with a blue, black or brown cover purchased from the stationery store. Make copies for yourself and each lender you wish to approach. Do not give out too many copies at once, and keep track of each copy. If your loan is refused, be sure to retrieve your business plan. For a more detailed explanation of each section of the business plan outline, see SBA's publication, *How to Write a Business Plan*, which includes step-by-step directions and sample sections of actual business plans. Also available from the SBA is a VHS videotape and workbook, "The Business Plan: Your Roadmap for Success."

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy write to: SBA Publications, P.O. Box 1000, Fort Worth, TX 76119.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE),** a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- **Small Business Development Centers (SBDCs),** sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- **Small Business Institutes (SBIs),** organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at **1-800-U-ASK-SBA (827-5722).**

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to **Government Printing Office,** Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)
P.O. Box 100
Pueblo, CO 81002
The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230
DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)
Public Health Service
Alcohol, Drug Abuse and Mental Health Administration
5600 Fishers Lane
Rockville, MD 20857
Drug Free Workplace Helpline: **1-800-843-4971**. Provides information on Employee Assistance Programs.
National Institute for Drug Abuse Hotline: **1-800-662-4357**. Provides information on preventing substance abuse in the workplace.
The National Clearinghouse for Alcohol and Drug Information: **1-800-729-6686** toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
  Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.
- **Books**
  Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.
- **Magazine and newspaper articles**
  Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.

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